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From the “Thatcherisation of Europe” to Brexit

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Introduction

1 Wondering what Margaret Thatcher would think about Brexit could be an amusing parlour game: the mystically inclined might even try to summon up her spirit with a Ouija board. But even if the Iron Lady were to communicate across the ether, the message would surely be garbled, given the complexity of Britain's Brexit predicament. This can be traced back directly to her days in power. In re-reading Jacques Leruez's clear and concise presentation of Thatcher's relations to Europe in *Le phénomène Thatcher*, it is striking to see how many of the ingredients of Britain's historical convulsion today emerged during her time in office.[1]

2 Thatcher's own political choices and her demise sprang from her and Britain's persistent ambiguities over Europe, which her governments compounded greatly. Work by Pauline Schnapper, for example, recalls how the UK has always been an ambivalent partner (*partenaire ambivalent*) in the EU for multiple institutional, constitutional and cultural reasons. These include: Protestantism; Britain's idea of Parliamentary sovereignty; its imperial history and rivalry with other European countries; the problems Britain feels Europe has caused it, especially the wars in the 20th century; the UK's special relationship with the United States; and Britain's visceral attachment to free trade.[2] Far from supporting European integration enshrined in the idea of "ever closer union", Britain has almost consistently rejected the EEC/EU[3] as a political project. Instead, its participation in "Europe" has been motivated by economic considerations, often coloured with memories of previous policy failures. Notably, Britain did not join the Eurozone in the late 1990s and early 2000s, partly because of the haunting memory of its ERM/EMS[4] membership from 1990 to 1992, which had opened the floodgates to Eurosceptism. But New Labour's decisions not to join the Eurozone

also reflected genuine concerns about the incoherencies of the single currency which are still weighing on it today.[5] Britain's overall disposition to the EU has therefore exhibited a high degree of "path dependency".[6] Successive generations of politicians have fought almost every proposal of institutional integration, often using economic arguments to support their positions. Despite growing economic integration, the UK therefore did not converge with its neighbours and partners in supporting the deepening of the European project. And today, Britain is on the path to Brexit.

3 This article demonstrates how Mrs Thatcher's years as Prime Minister intensified Britain's ambivalence to Europe. In 1986, she supported the creation of the Single Market as a trade liberalisation project, widely referred to as the "Thatcherisation of Europe".[7] Yet two years on, her famous Bruges Speech set out Thatcher's opposition to the growing federalism of the European Economic Community (EEC). Subsequently, in early October 1990, Thatcher finally accepted the pound's membership of the ERM, only to lambast her European colleagues' project for monetary union a few weeks later. Her famous "*No, No, No*" speech in Parliament on 30 October, just days after an acrimonious EEC summit, stridently criticised plans for monetary union, and Jacques Delors' proposals for strengthening the EU institutions.[8] It was to trigger her downfall.

4 This article begins by reviewing briefly the early ambiguities of Thatcher's positions on Europe. It then examines the role Thatcher and her ally Lord Cockfield played in the creation of the Single Market, and how she quickly responded to the mounting integrationist ambitions of the Delors Commission. The article goes on to examine the fiasco of Britain's ERM membership and its legacies. It then analyses how Britain shifted away from Europe's social model under Margaret Thatcher, drawing on the "varieties of capitalism" literature, and ends by examining the inherent contradiction between the Conservatives' drive to reduce the size of government while pursuing globalisation.

Britain's complicated path to the Single Market project

5 The design and launching of the Single Market in the mid-1980s were arguably the high-point of Britain's membership of the EEC/EU. With Denmark and Ireland, the UK only entered the common market in 1973, under the Conservative government of Edward Heath. Yet only two years later, the then Labour government organised a referendum on membership of the EEC, and 67% of the voters favoured remaining.[9] As today, both Britain's major parties were split on the issue, and Harold Wilson held Britain's first referendum ever as a means to overcome divisions in the party: Jeremy Corbyn voted leave at the time.[10]

6 Despite the strong vote to remain in the EEC, Britain soon again signalled profound doubts about the European project by staying out of the exchange rate mechanism (ERM). This was the centre-piece of the EEC's European Monetary System (EMS), a major Community policy launched in March 1979 to limit exchange rate fluctuations between member currencies. The UK's reluctance to join can be partly put down to continued reticence over Europe by Labour and its new leader and Prime Minister James Callaghan.[11] But as Nathalie Champroux has pointed out, advice from the Treasury was unenthusiastic, especially given that an attempt to limit exchange rate fluctuations among European countries in 1972 had been costly and had failed.[12]

7 The incoming Conservative government, elected in May 1979 under the leadership of Margaret Thatcher, was no more interested in EMS membership either. This followed a similar desire to limit the UK's European engagement, and the fact that the Conservatives came to power with the clear ambition to pursue monetarism as a new macroeconomic policy, while favouring market forces instead of government intervention. Pegging the pound to other EEC currencies would have tied the government's hands on monetary and run counter to its free-market ideology.[13]

8 In fact, Margaret Thatcher's first years in office were characterised by a confrontational relationship with her European partners, as she tried to reduce Britain's large, net budget contributions to the EEC. This imbalance was largely due to the UK paying significant tariffs on food imports from its historical (Commonwealth) suppliers, while Britain's relatively small and efficient agricultural sector received little financial support from the Common Agricultural Policy (CAP).[14] For Britain's partners, Thatcher's demands to "*get [her] money back*" were seen as *non communautaire*: penny-pinching ignoring the wider aims of the European project. This budget battle raged on until the Fontainebleau summit of 1984, when Britain was granted its budget rebate.

From the "Thatcherisation of Europe" to the Bruges Speech

9 With the budget issue settled, a more constructive chapter opened up in Britain's relations with the EEC, with Britain being fully engaged in the development of the Single Market. Its aim was to open up fully Europe's national economies, notably by bringing down non-tariff barriers (NTBs) to trade in goods and especially services. These included national public procurement policies by public sectors; idiosyncratic health and safety regulations; regulations limiting access to professions by nationals, etc. By adopting the principle of "mutual recognition", the Single Market project made such NTBs obsolete as products deemed acceptable in one country must be recognised by all other Member States (in areas where harmonised European standards do not exist). It is this principle which today, for instance, gives financial institutions (including foreign entities) established in the UK their "passporting rights" to sell services throughout the European Union, as they are regulated by the UK authorities. On leaving the EU, such foreign and British-owned institutions will lose these rights.

10 The creation of the Single Market was based on the implementation of nearly 300 European Directives to remove impediments to cross-border business. This is a process which is still going on in some public services: for example, France is set to open up rail services to private, and potentially foreign, operators as of 2021. More generally, the Single Market project established the four freedoms of the movement of goods, services, capital and people. These freedoms lie at the heart of Britain's Brexit predicament as the referendum in 2016 was much about controlling immigration, while having continued access to the Single Market is supported by many businesses.

11 At the time, the whole project was based on a White Paper published by the European Commission in 1985 and entitled *Completing the Internal Market*.[15] It was drafted under the supervision of Lord Arthur Cockfield, a close Thatcher ally whom she nominated to the European Commission headed by Jacques Delors in 1984, in part to hold Delors in check.[16] But things turned out rather differently. Cockfield strongly believed in opening

up markets. He was highly effective in implementing EU legislation to bring down trade barriers, and this deregulatory/liberalisation thrust of the Single Market explains why it became known as "Thatcherisation of Europe". For his part, Delors was happy to let Cockfield pursue his work, seeing the Single Market as a means for achieving "Economic and Monetary Union essentially leading to European Union".[17]

12 Lord Cockfield's zeal in pursuing market integration – including VAT harmonisation across the Community – ultimately however ran into resistance from Thatcher, the Treasury and the Foreign Office. Moreover, his assertion in June 1988 that Britain would eventually have to drop its opposition to a single European currency led Thatcher not to reappoint him to the Commission, as he had "*go[ne] native*".[18] By this stage, however, she – and arguably the UK as a whole – had been locked in on several points. First, Cockfield's project had become a legally-binding European Treaty, rather than a mere agreement among Member States which Thatcher favoured.[19] It therefore constituted a clear institutional step to closer integration. Secondly, the preamble of the Single European Act specifically brought the goal of strengthening economic and monetary union into the Treaties of the Communities. The SEA also established qualified majority voting in the Council of Ministers as the basis for adopting EU Directives. This fundamental shift away from unanimity voting greatly improved EU decision-making, but it also weakened the direct power of national governments to oppose policies. Furthermore, the SEA strengthened the consultative powers of the European Parliament, and it nuanced Member States' powers to block measures that went against important national interests (the so-called Luxembourg compromise).[20]

13 Overall, the SEA therefore bound the UK into the EEC and into European law far more tightly than had been the case before. Some Conservatives like the highly influential Sir Edward du Cann explicitly drew attention to the broader implications of the Act, as it went through Parliament, noting that the Act was "*probably... the largest constitutional measure that the House has had to discuss since our discussions on the European Communities Act 1972*".[21]

14 Moreover, Jacques Delors soon made clear that the Single Market was only a stepping stone to economic and monetary union, leading to a rift between Thatcher and the Commission President in 1988. Two events in particular sparked Thatcher's defence of national sovereignty in her Bruges Speech. The first was a speech given by Delors to the European Parliament in July 1988, setting out the importance of strengthening the Community's social progress, and developing European government. Indeed, Delors even went so far as to assert that "*[t]en years hence, 80% of our economic legislation, and perhaps even our fiscal and social legislation as well, will be of Community origin*".[22] Then, in September 1988, Delors made a landmark speech at the annual conference of the Trades Union Congress, in which he underlined the importance of consolidating social and economic rights in the EEC and supporting collective bargaining at the European level.[23] Delors was given a standing ovation, and the British union movement subsequently became far more pro-European.[24]

15 To Thatcher, these integrationist ambitions and her view that the Commission's competencies were progressively expanding into new areas raised a fundamentally threatening question: "*Were British democracy, parliamentary sovereignty, the common law, our traditional sense of fairness, our ability to run our own affairs in our own way to be subordinated to the demands of a remote European bureaucracy, resting on very different traditions?*"[25] A few days after Delors' TUC appearance, she gave her iconic Bruges

Speech, outlining Britain's place in 2,000 years of European history and culture. She came out very much in favour of a *Europe des nations*, of a Europe that was not only the European Community. Moreover, in a specific rebuttal to Jacques Delors she stated emphatically that: "*We have not successfully rolled back the frontiers of the state in Britain, only to see them re-imposed at a European level with a European super-state exercising a new dominance from Brussels*".[26] In view of Brexit, it must also be recalled that Thatcher stated: "*Britain does not dream of some cosy, isolated existence on the fringes of the European Community. Our destiny is in Europe, as part of the Community*". While the Bruges Speech became in many ways the founding text of Euroscepticism, it also re-states – emphatically – Britain's longer-term inclination of favouring closer economic links with its partners, while rejecting the institutional and political integration of the EEC/EU.

16 The ambiguities of Mrs Thatcher's position – and more generally the dilemma of the UK since the signing of the SEA – could not be starker. On the one hand, she and her allies welcomed the market liberalisation of the Single Market. On the other hand, they were deaf to the integrationist aspirations Jacques Delors and other European politicians and in many ways to the ambition of European project from the outset. From a political economy point of view there is also a major contradiction here. Thatcher, today's Eurosceptics and arguably neoliberals more generally fail to acknowledge sufficiently that markets need laws and government to function. The creation of the Single Market has necessarily led to the deepening of European law to allow it to operate, and this has consolidated the primacy of EU law over national law. Moving forward to Brexit, there already is inevitably today, for example, a tug-of-war between the UK and the EU over which court(s) will have the final say over future economic relations between both parties.

Britain's ERM debacle and the surge of Euroscepticism

17 Margaret Thatcher was also a key player in the next major episode of the emergence of British Euroscepticism. After a decade of putting off ERM membership until the "*time [was] right*", she oversaw entry of the pound into the ERM during the last days of her premiership. This strategic policy decision was based on two sets of economic and political considerations. But, it turned out to be a spectacular comedy of errors in Britain's relationship with the European Union.

18 The economic case for joining the ERM was based on the on-going imperative of fighting inflation. Since the 1970s, Britain had had a poor record on controlling inflation, and the switch to monetarism when the Conservatives came to power in 1979 did not lead to immediate improvements as it was accompanied by other policies that stoked inflation: notably the increase in VAT from 8% to 15% in June 1979, to pay for income tax cuts.[27] Although inflation did subsequently come down, as high interest rates squeezed the economy and along with a surging pound caused manufacturing output to collapse and unemployment to rise to more than 3 million by 1986, price increases were never fully under control during the 1980s, and in fact began rising again at the end of the decade. This was in no small part due to the so-called "Lawson boom", driven by house price rises (aggravated by financial market deregulation), significant tax cuts in 1988, and a lax monetary policy Nigel Lawson ended up pursuing inadvertently.[28] As the monetarism of the early Thatcher years had not worked as

predicted, the government looked for other ways to fight inflation. Eventually, Lawson turned to Europe for inspiration, following widely-held economic opinion that the anchoring of their currencies to the Deutschmark via the ERM had allowed other countries to combat inflation successfully (notably France and Italy). Accordingly, Lawson began an unofficial policy of "shadowing the mark" in early 1987. International events however undermined this strategy, as a massive stock exchange crash in October 1987 led the US and other central banks to cut interest rates, while the Deutschmark also experienced weakness in international markets. To give credibility to his policy of shadowing the mark, Lawson felt obliged to follow the mark's depreciation, by keeping UK interest rates low.[29] This unfortunately encouraged renewed inflation, and led to an increasingly fractious relationship between Thatcher and Lawson, culminating in his resignation in October 1989.[30] There followed a hiatus for a year in which house prices, the economy *and* inflation continued to surge, fuelling further debate within the Tory leadership, business and the press about ERM membership.

19 The economic case for joining the ERM was then backed up by the dramatic changes in global politics. In November 1989 the Berlin Wall came down fairly unexpectedly, following political changes in the Soviet Union since the middle of the 1980s and massive demonstrations in East Germany during the summer that year. In quick succession, the countries of Eastern Europe went though mainly peaceful revolutions, casting out previous, Soviet-backed regimes, while Germany itself was reunited on 3 October 1990. Germany's (West) European partners had little choice but to go along with this, though many like Thatcher and François Mitterrand had reservations about a larger, united Germany re-emerging. In exchange for their acceptance of reunification, the German government led by Helmut Kohl signed up emphatically to economic and monetary union and hence relinquishing the Deutschmark, the economic and political cornerstone of Germany's post-War reconstruction.

20 Given these astounding shifts in Europe's geopolitical tectonics, pressure on Thatcher to accept ERM membership – as a strategy for combating inflation and for keeping the UK at the centre of European politics – became overwhelming.[31] And so, on Friday 5 October 1990, the government announced, somewhat unexpectedly, that the pound would join the ERM. Britain's European partners were given practically no advanced warning, and there was something sleight of hand about this political manoeuvre. It was a major decision and it turned out to be fateful for Britain's future relationship with the EU. Within weeks, Thatcher gave her famous "*No. No. No.*" speech which led to her unprecedented sacking by Conservative MPs.[32] More fundamentally, to attract foreign capital to finance reunification and to control inflation, Germany's central bank held interest rates high during the following years. As a result, other countries like Britain, France and Italy in particular were forced to keep their own interest rates high in order to support their currencies within the ERM, despite the significant recession the major world economies experienced in the early 1990s.[33]

21 In Britain, the housing market crashed, output slumped and unemployment *again* rose above 3 million. This second deep recession under the Tories did finally wring inflation out of the economy, abetted by a decade of anti-union legislation and major industrial disputes which much weakened the ability of Britain's workers to fight for pay. Although the Conservatives under John Major were re-elected for a fourth time in April 1992, they found themselves under increasing political and financial market pressure

to improve the economy. Some attempts were made to lower interest rates slightly. However, during the summer and especially from August 1992 onwards, financial markets began betting against the pound (and Italian lira) and their governments' ability to maintain ERM parities. Events came to a head on "Black Wednesday", 16 September, when Chancellor Norman Lamont announced the government was suspending the pound's membership of the ERM: dramatic efforts that day to buy sterling, while hiking interest rates first to 12% and then 15% had failed to stem market selling of the pound. The Italian government made the same move two days later.

22 This was a dark moment for John Major and his colleagues. They had staked their reputations on Britain's credible membership of the ERM and their policy had ended ignominiously. The government's reputation never recovered, even though it managed to elaborate a new – successful – macroeconomic policy framework quite quickly. This was based on using short term interest rates to target inflation directly, and giving the Bank of England a greater, more transparent say in policy. Ultimately, these arrangements paved the way for Gordon Brown as Chancellor to introduce operational independence for the Bank of England to set interest rates, when New Labour came to power in May 1997. Yet the ERM debacle also led to Gordon Brown's own weariness of joining the Eurozone, and when he came to office he quickly set out "five tests" to determine whether joining the Eurozone was in Britain's economic interests. The broad nature of these tests largely precluded a simple binary choice, and it is not surprising that Brown, his special advisor Ed Balls and analysts at the Treasury concluded in the autumn of 1997 that the time was not right for Britain to adopt the euro at its launch in 1999. A far more detailed economic analysis was conducted in 2003 and again it was concluded that the time was not right. The economic caution of the Chancellor, his advisors and the Treasury held sway over the more optimistic and pro-European sentiments of Prime Minister Tony Blair.[34]

23 As for the Conservatives, the crashing out of the ERM, followed by Britain's economic success in the 1990s and 2000s played a substantial role in strengthening Euroscepticism. In the words of Europhile Tory grandee Kenneth Clarke, "*the ERM crisis had put a match to the dry tinder of resentment that backbench and grassroots Conservatives continued to feel about the fall of Margaret Thatcher two years earlier….. Black Wednesday had opened the Eurosceptic floodgates.*"[35] After they lost office in 1997, the Conservatives were led by harder, right-wing Eurosceptics: William Hague, Ian Duncan-Smith and Michael Howard, whose anti-European positions were prominent in their political positioning. As Agnès Alexandre-Collier recalls, by the time the more centrist David Cameron became leader in 2005, the party had become far more Eurosceptical.[36] In terms of path dependency, the ERM episode marked an irreversible break point which set the Conservative party and UK-EU relations on a more confrontational path, and ultimately to the Brexit referendum.

Britain's "variety of capitalism" setting it apart from Europe

24 If the sacking of Thatcher and the success of the UK economy after crashing out of the ERM – "Black" Wednesday turned "White" – were key to the rise of Euroscepticism, it is also useful to examine the structural changes of its economy which pulled Britain away from its European partners. These too can be traced back to the Thatcher years. Put

simply, they boil down to Britain moving away from what is now often called the "European social model", or as Delors said in his TUC speech the "*uniquely European model*", including "*mechanisms of social solidarity, of protection of the weakest, and of collective bargaining*".[37]

25 Neoliberal policies of deregulation, tax reduction and the general weakening of labour compared to capital have affected most of the world since the 1970s and 1980s, yet Britain has gone further down the path of neoliberalism than its main European partners. This has created a structural, economic divergence which underpins Brexit, coming on top of the other political, institutional and cultural considerations. This economic divergence can also be traced back to Margaret Thatcher's leadership of the Conservative party, and today it is important to the economic visions of Conservative "Brexiteers" based on rolling back EU regulation and pursuing independent free trade agreements internationally: in the words of Nigel Lawson, for example, a leader of the 2016 Leave campaign, Brexit provides the opportunity "*to make the UK the most dynamic and freest country in the whole of Europe: in a word, to finish the job that Margaret Thatcher started*".[38]

26 To examine Britain's specific trajectory, I draw on key texts of the "varieties of capitalism" literature, which identified different types of capitalism in old industrialised countries, in the years following the fall of the Berlin Wall. The ensuing typologies are now dated, not covering the development of China. Yet they remain relevant to examining how countries in "the West" evolved in response to the stagflation of the 1970s, and how the Conservatives set the UK on a different path to its European partners. Indeed, in today's world, it is difficult to recall that Britain had been a pioneer of European social democracy after 1945, or that the Conservatives and then Labour tried to emulate French indicative planning in the UK during the 1960s. It is hard to remember that top income tax rates in the UK (and the United States!) were considerably higher than in France and Germany through to the end of the 1970s, and that levels of income inequality were very similar in all these countries.

27 Yet as the 1970s wore on, Mrs Thatcher and the "New Right" of Conservative thinkers turned increasingly to the monetarist and neoliberal ideas emerging from the University of Chicago, and the network of free-market think-tanks on both sides of the Atlantic. Over time, this led to Britain converging on the more free-market form of capitalism which was reasserting itself in the United States. Aspects of market deregulation had been adopted by the Democratic Presidency of Jimmy Carter (1977-1981) in areas of transport. Carter also appointed Paul Volcker as Chairman of the Federal Reserve in 1979 to apply monetarism to fight inflation. But it was the Republican Presidency of Ronald Reagan (1981-1989) which really entrenched neoliberalism, notably through the implementation of its supply-side agenda. This included substantial tax cuts, further market deregulation and a confrontational stance towards America's (public sector) unions. Progressively, the weakening of labour in the US was compounded by reforms of local public services (leading to new public management or NPM), and the relocation of industry out of the US industrial heartlands, first to so-called "right-to-work" states with weak labour regulations, and then overseas as firms sought to increase shareholder value. These developments led to what the French economist, *fonctionnaire* and businessman Michel Albert called the "neo-American" model, described in his book *Capitalisme contre capitalisme*.[39] Published in 1991, it contrasts this new US model with what he called "Rhineland capitalism"

(*capitalisme rhénan*). The latter entails far more financing by house-banks rather than stock markets, meaning there is less pressure to achieve short term returns. Firms are also more involved in training employees, and collective agreements establish working conditions in sectors. Companies also have more stable relationships with suppliers and clients. Finally, welfare protection in Rhineland capitalism is more developed. This model was traditionally most represented by Germany, but also by other continental European countries like Austria and the Netherlands. By contrast, the Thatcherite agenda in Britain unfolded in parallel to events in the United States, in terms of weakening labour, deregulating markets (notably financial markets), and implementing public sector reforms, based on privatisation, contracting out and the steady application of NPM.

28 This bi-polar view of capitalism was much extended in a landmark study coordinated by Peter Hall and David Soskice, entitled *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage* (2001).[40] Based on the microeconomic observation of how companies operate in different sectors and across countries, the study concluded that there are (were) essentially two types of capitalism, made up of liberal market economies (LMEs) and coordinated market economies (CMEs). Britain, along with the other English-speaking/"Anglo-Saxon" countries (Australia, Canada, Ireland, New Zealand and the United States) was classified as LMEs in this study. At the risk of over-simplifying, this means that relations between actors in these economies (companies, employees, finance, suppliers and customers) tend to be arm's length, market-based, contractual and less permanent. Firms resort more to financial markets than banks to obtain funding. They are less involved in training employees. Technological innovation tends to be radical rather than progressive, as employees quit their companies to create start-ups. Production networks with suppliers tend to be less stable. This all contrasts with the more stable economic relationships to be found in CMEs.

29 Finally, it is worth mentioning the pioneering typology of welfare states formulated by the Danish sociologist Gøsta Esping-Andersen. Published in 1990, The Three Worlds of Welfare Capitalism, identifies three prevailing welfare state types in North America and Western Europe.[41] The first, Esping-Andersen calls "liberal welfare states", in which much "social" insurance is organised privately (notably pensions, but also health care). Public transfer payments to individuals (such as unemployment support) tend to be minimal and means-tested. By contrast, "conservative welfare states" involve more collective provision, with benefits often being income-related, so that middle class households tend to defend such systems politically. However, these systems tend(ed) to be socially conservative because historically they were based on the "male breadwinner" family model. Significantly, such systems do not strive for top-down income redistribution. Instead they are based on horizontal solidarity within professions, as social security contributions and payments are traditionally organised by profession. From Esping-Andersen's perspective, only the third group of "social democratic" welfare states in Scandinavia are truly progressive. They (used to) provide universal benefits to citizens that do not depend directly on their status as employees in the labour market, and also redistribute(d) income vertically.

30 Taking these various analyses together, it becomes clear that the UK has distanced itself from its European partners in several ways. The market deregulations and privatisations of the 1980s and 1990s, including that of financial markets, have

strengthened the contractual nature of the British economy, and have consolidated the use of capital markets by companies. Similarly, the Conservatives under Thatcher implemented successive reforms to welfare policy to keep control on spending and to increase the gap between paid work and welfare transfers. Britain therefore passed from having a more social democratic welfare state to being more in line with the liberal one, providing minimal welfare benefits. Tellingly, the Major government negotiated an opt-out from the EU's Social Protocol, of the Maastricht Treaty in 1992. This was obtained to maintain the UK's more deregulated labour market: a particular bone of contention at the time was the EU's Working Time Directive limiting the working week to 48 hours, which the government was very keen to avoid. Major also opposed implementing a minimum wage, another policy set out in the Social Protocol.

31 It was only when New Labour came to power in 1997 that the UK finally signed up to the Social Protocol. However, in one area Britain under Tony Blair and Gordon Brown continued a key policy shift by Thatcher, which still sets Britain apart quite strongly from many other European countries. This concerns the role of unions as interlocutors in companies, industries and nationally. When Thatcher came to office, she ended what the British used to refer to (quaintly and pejoratively) as "beer and sandwiches in Downing Street", when union leaders were consulted on government policy. New Labour's policy was to keep out the unions, to keep social dialogue to a minimum, and to perpetuate Thatcher's dismantling of collective bargaining.

Potential flaws in the "Global Britain" project

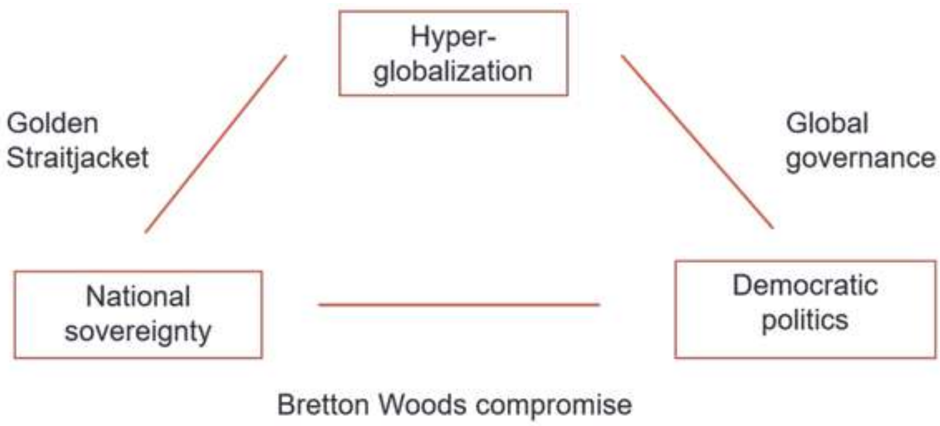
32 Moving forward, the legacy of the early Thatcher years also played a role in the Coalition government's "austerity" policies from 2010 onwards, thus worsening Britain's social climate in the run-up to the EU referendum. In the wake of exploding government deficits and debts following the financial crisis (2007-2008), the Conservative-Liberal Democrat Coalition entered office and immediately adopted the objective of eliminating Britain's public deficit (then at 10% of GDP) by the end of Parliament (2015). Deep cuts were implemented in a wide variety of areas (except health, pensions and overseas development aid). This downward pressure on spending played its part in the economic flat-lining of the British economy during the early 2010s. It was a controversial policy, attacked not just by the government's opponents, but was also by the IMF at the time. In rebutting such criticisms, George Osborne as Chancellor of the Exchequer argued that tight control of government finances was vital to retain credibility with financial markets. He also specifically referred to the experience of the first Thatcher government, which in 1981 cut the public sector deficit in the middle of a deep recession. At the time, Thatcher was scathingly criticised by the economics profession, but with hindsight the 1981 budget coincided with the beginnings of an upturn in the economy. Osborne saw himself as applying the same strategy, and seems to have been vindicated subsequently.[42] The British economy did pick up from the second half of 2013 onwards, and recorded better growth than elsewhere in Europe, through until the end of 2016. But Osborne's policy was not only driven by the expediency of reducing deficits, but also by his view that the size of the State should be shrunk significantly.[43] The Brexit referendum suggests that his neoliberal enthusiasm for small government was backfired. The squeeze on welfare support including big cuts to benefits and public services occurred just as immigration

into the UK was surging. In the two years running up to the referendum, annual net migration exceeded 300,000, half of which coming from the EU.[44]

33 Intuitively it is easy to see that this policy-mix was risky. But there are underlying economic reasons why the overall Conservative party strategy of pursuing economic openness and less public spending was always going to be difficult. In his subtle analysis of *The Globalisation Paradox*, the Harvard-based international political economist Dani Rodrik emphasises the strongly unbalanced costs and benefits which trade liberalisation brings. He argues that while international trade theory has historically favoured free trade decisively, it plays down the negative consequences which liberalisation may have for certain social and economic groups, even if it benefits society as a whole. He notes, for example, that a $1 improvement in national welfare resulting from tariff cuts is likely to be accompanied by a $50 shift of resources between groups within the economy. In other words, collectively everyone is better off, but a minority will be far worse off. Moreover, such within-country transfers are greater when existing tariffs are lower! [45]

34 Dani Rodrik also returns to an economic study by a political scientist at Yale University named David Cameron [sic] into examining why public spending rises over time. In looking at various institutional and political factors, such as the political business cycle, the influence of pressure groups on politicians. Cameron found that the single most important cause for higher public spending was the exposure of an economy to international trade. He argues this occurs because governments, in response to institutional pressure from voters and unions, pursue numerous policies to protect their populations from the adverse consquences of trade openness. Though Cameron's work was published in the late 1970s, Rodrik's own research reaches the same conclusions.

Graph: Dani Rodrik's Impossibility Trilemma



35 More generally, Rodrik has attracted much attention in recent years for arguing that globalisation brings with it a "trilemma", or an "impossibility theorem" (see Graph). He argues that i) democracy, ii) national sovereignty and iii) global economic integration cannot be achieved simultaneously: countries are able to pursue any two of these three objectives, but not all three. If for example, a country wants to preserve national sovereignty and democracy, then there are limits to it pursuing international integration. According to Rodrik, this kind of balance existed during the post-war, Bretton Woods era, when trade liberalisation was still limited and financial flows across

borders quite strongly regulated. Alternatively, a country may seek to pursue national sovereignty and global integration. This was the situation which existed during the 19th century, a period Rodrik calls the “golden straightjacket”, when currencies were backed by gold, and democracy was generally limited. Finally, it is possible for nations to pursue both global economic integration and democracy, but at the expense of national sovereignty. Such a choice involves moving towards a form of “global federalism”, which Rodrik cautions is difficult to achieve, even for relatively like-minded nations as exist in the European Union. He concludes that any reform of the international economic system must face up to the constraints of this trilemma.[46]

36 Applying these analyses by Rodrik to the Thatcherite agenda sheds light on the contradictions of supporting the creation of the Single Market while simultaneously seeking to maintain national sovereignty and democracy. Conversely, Brexit vote clearly stands out as a rejection of European integration, and is much defended by Brexiteers as an expression of democracy. Whether root-and-branch change of Britain’s economic and political system based on a 52 percent majority of a 72 percent turnout is actually democratic may be debated. But the Conservative Brexiteer project of finishing the Thatcher revolution by further strengthening market forces as part of a Global Britain strategy carries its own risks of aggravating income and wealth inequalities and undermining the kind of democracy usually associated with a more inclusive society.

Conclusion

37 Many of the profound difficulties the UK currently has over Brexit may be traced back to the Thatcher era. Britain has always been ambivalent about the European project, showing a strong degree of path dependency in favouring economic ties yet almost consistently rejecting institutional and political integration. Margaret Thatcher’s support for the creation of the European Single Market as a form of trade liberalisation greatly compounded this ambivalence. By definition, the opening up and economic integration of Europe’s national economies set out in the Single Market programme necessarily called for more EU legislation and law (interpreted by the European Court of Justice). The Single Market Act also explicitly called for more monetary cooperation. Greater integration was clearly the goal of Jacques Delors and others, building on the original call by the Treaty of Rome for “ever closer union among the peoples of Europe”. Furthermore, Thatcher played a key role in Britain joining the ERM, while her defenestration by Conservative MPs and the subsequent ejection of the pound from the ERM in 1992 lit the flame of Euroscepticism.

38 Margaret Thatcher’s policy legacy also pushed Britain further down the road of neoliberalism than its European partners. It arguably created the economic basis for Brexit, and so-called hard Brexiteers are seeking to pursue the neoliberal agenda further, with tax cuts, market deregulation and tariff reduction. Such an overall strategy will likely expose certain industries and farming in the UK to severe losses. This will surely aggravate Britain’s social inequalities further, with potentially significant political consequences.

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NOTES

1. Jacques Leruez, *Le phénomène Thatcher*, coll. Question au XX^{e} siècle (Bruxelles, éditions Complexe, 1991), pp. 247-290.

2. Pauline Schnapper, *Le Royaume-Uni doit-il sortir de l’Union européenne* (Paris, La documentation française, 2014), pp. 25-42.

3. The European Economic Community (EEC) became the European Union (EU) in 1993, following the signing of the Maastricht Treaty in 1992.

4. See the next section for definitions.

5. The Eurozone is a colloquial term referring to economic and monetary union (EMU), which was created as a monetary union but without a common fiscal policy and federal budget. This is widely perceived as a structural weakness, raising fundamental concerns about the Eurozone’s future. More generally, after 20 years, EMU still lacks many of the attributes of an “optimum currency area” (OCA), such as labour mobility, wage flexibility, risk-sharing and automatic fiscal transfer, commonality of destiny (i.e. solidarity), etc. For an overview of OCAs see <https://en.wikipedia.org/wiki/Optimum_currency_area>, [15 July 2019].

6. The idea of path dependency has emerged in economics and other social sciences over the last twenty years to help explain why countries, economies, businesses and agents do not converge on standardised, economically-efficient practices. Put very simply, it is based on the idea that “history matters”, and that for various technical, cultural and random factors, behaviour may be “locked-in” to particular patterns which are not optimal and which are non-reversible. Instead of stochastic (i.e. random) processes converging around one (efficient) mode, they can lead to convergences around several modes. For a general, early exposition, see Paul David, ‘Path dependence, its critics and the quest for “historical economic”’, June 2000, at: <http://www-siepr.stanford.edu/workp/swp00011.pdf>, [14 July 2019]; and for a current overview see <https://en.wikipedia.org/wiki/Path_dependence>, [15 July 2019].

7. According to Dr Martin Holmes, an early user of this term was Lord (David) Young (a Thatcher appointee to various public offices responsible for labour and industry during the 1980s): David Holmes, ‘From Single Market to Single Currency: Evaluating Europe's Economic Experiment’, The Bruges Group, 1 July 1995, < https://www.brugesgroup.com/media-centre/papers/8-papers/804-a-single-european-currency-why-the-united-kingdom-must-say-no>, [16 July 2019].

8. Jacques Delors was President of the European Commission from 1985 to 1995.

9. Edward Heath became Prime Minister after the Conservatives won the general elections of 1970. Heath then lost the elections to Labour in February 1974, and Harold Wilson returned to Downing Street. Wilson retired in April 1976. He was succeeded by James Callaghan who remained Prime Minister until May 1979, losing the elections to Margaret Thatcher and the Conservatives. The referendum on remaining in the EEC was held in June 1975.

10. Kylie MacLellan, 'Labour's Corbyn, who voted "No" in 1975, raises Brexit fears', Reuters, September 11, 2015, at <https://uk.reuters.com/article/uk-britain-politics-labour-corbyn/labours-corbyn-who-voted-no-in-1975-raises-brexit-fears-idUKKCN0RB1IK20150911>, [17 July 2019].

11. For a good secondary source on Labour's ERM/EMS decision see Hugo Young, *This Blessed Plot: Britain and Europe from Churchill to Blair* (London, Papermac, Macmillan, 1998), pp. 299-305.

12. Carine Berbéri and Nathalie Champroux, 'La question de l'adoption de l'euro', in Agnès Alexandre-Collier, Bernard d'Hellencourt et Pauline Schnapper (eds.), *Le Royaume-Uni et l'Union européenne depuis 1997* (Dijon, Sociétés EUD, 2007), pp. 117-130.

13. Margaret Thatcher, *The Downing Street Years* (London, HarperPerennial, 1995 [1993]), pp. 691-693.

14. *Ibid.*, pp. 62-63 and 541-545.

15. Commission of the European Communities, *Completing the Internal Market*, COM(85) 310 final, Brussels, 14 June 1989, <http://europa.eu/documents/comm/white_papers/pdf/com1985_0310_f_en.pdf>, [30 August 2018].

16. Lord Arthur Cockfield had variously been a British civil servant, a former managing director Boots (Britain's ubiquitous high street chemists) and a politician. He had held several ministerial appointments since the Conservatives came to power in 1979, including being a Secretary of State for Trade. He was the kind of doer with private-sector experience who appealed to Thatcher, and whom she sent to Brussels in 1984. *The Daily Telegraph*, 'Lord Cockfield: obituary', 11 January, 2007, at:<https://www.telegraph.co.uk/news/obituaries/1539106/Lord-Cockfield.html>, retrieved 30 August 2018.

17. European Institute, Oral History Archive, *Interview with Arthur Cockfield by A. Crozier*, London, Historical Archives of the European Union, 24 August 1998, at <https://archives.eui.eu/en/oral_history>, retrieved 30 August 2018.

18. Margaret Thatcher, *The Downing Street Years* (London, HarperPerennial, 1995 [1993]), p. 547.

19. Helen von Bismarck, 'Margaret Thatcher: the critical architect of European integration', *UK in a Changing Europe*, 4 May 2016, <http://ukandeu.ac.uk/margaret-thatcher-the-critical-architect-of-european-integration/>, [30 August 2018].

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22. Jacques Delors, *Speech*, Debates of the European Parliament, No 2- 367/140, 6 July 1988, <https://www.margaretthatcher.org/document/113689>, [31 August 2018].

23. Jacques Delors, '1992: The Social Dimension', Speech at the TUC annual conference Bournemouth, 8 September 1988, at <https://www.margaretthatcher.org/document/113686>, [31 August 2018].

24. Anne-Marie Motard, 'Le TUC et l'Europe, le virage des années Thatcher : de l'internationalisme de principe au pragmatisme pro-européen', in Anne-Marie Motard (ed.), 'Les syndicats britanniques : déclin ou renouveau?', *Revue française de civilisation britannique*, XV: 2, 2009, pp. 113-131, <https://journals.openedition.org/rfcb/1143>, [31 August 2018].

25. Margaret Thatcher, *The Downing Street Years* (London, HarperPerennial, 1995 [1993]), pp. 742-743.

26. The Bruges Speech was given at the College of Europe in Bruges on 20 September 1998, where Thatcher had had a longstanding invitation to speak. The full text is available at <https://www.margaretthatcher.org/document/107332>, [17 July 2019].

27. Conservative Party papers released in the 1990s show that the decision to raise VAT to pay for income tax cuts was taken in June 1978 by Geoffrey Howe (then Shadow Chancellor) and leading Conservative policy-makers, including Keith Joseph, Nigel Lawson, Peter Rees, Lord Cockfield and Patrick Jenkin; reported by Nicholas Timmins, ‘How the Tories kept secret the 15% VAT hike’, *The Independent*, 3 January 1995, <https://www.independent.co.uk/news/uk/how-tories-kept-secret-of-15-vat-hike-1566429.html>, retrieved 5 September 2018.

28. Nigel Lawson was appointed Chancellor of the Exchequer after the Conservatives’ re-election in 1983.

29. Nigel Lawson, *The View from No. 11: Memoires of a Tory Radical* (London, Bantam Press, 1992), p. 785.

30. Nigel Lawson, letter of resignation 27 October 1989, available at <https://www.margaretthatcher.org/document/107805>, retrieved 5 September 2018.

31. In her memoires, Thatcher notes that: ‘There are limits to the ability of even the most determined democratic leader to stand out against what the Cabinet, the Parliamentary Party, the industrial lobby and the press demand…”, Margaret Thatcher, *The Downing Street Years* (London, HarperPerennial, 1995 [1993]), p. 722.

32. The Poll Tax fiasco was the other major issue leading to her colleagues turning on her.

33. The recession of the early 1990s was caused by a number of reasons. It was partly the result of a cyclical period of cooling following the rise in activity and inflation brought on by very low interest rates in the wake of the October 1987 stock market crash. It also followed the Savings & Loans financial crisis and credit crunch in the United States and the huge stock and housing market collapses in Japan at the time. Lastly, global growth took a hit after Saddam Hussein’s invasion of Kuwait in August 1990 and the ensuing war in early 1991.

34. Carine Berbéri and Nathalie Champroux, ‘La question de l’adoption de l’euro’, in Agnès Alexandre-Collier, Bernard d’Hellencourt et Pauline Schnapper (eds.), *Le Royaume-Uni et l’Union européenne depuis 1997* (Dijon, Sociétés EUD, 2007), pp. 117-130. See also, William Keegan, *The Prudence of Mr Gordon Brown* (Chichester, John Wiley & Sons, 2004), pp. 301-328.

35. Kenneth Clarke became Chancellor of the Exchequer following the Black Wednesday debacle. The quote is from his memoires, reproduced by Alan Travis, ‘Thatcher warned Major about exchange rate risks before ERM crisis’, *The Guardian*, 29 December 2017, <https://www.theguardian.com/uk-news/2017/dec/29/thatcher-warned-major-about-exchange-rate-risks-before-erm-crisis >, retrieved 3 September 2018.

36. Agnès Alexandre-Collier reviews well the years out of office and the way Euroscepticism became a major force in the Conservative Party: Agnès Alexandre-Collier, ‘Les Conservateurs face à la question européenne depuis 1997’, in_Agnès Alexandre-Collier, Bernard d’Hellencourt and Pauline Schnapper (eds.), *Le Royaume-Uni et l’Union européenne depuis 1997*, Dijon, Sociétés EUD, 2007, pp. 9-18.

37. Delors, *op.cit.*

38. Nigel Lawson, ‘Brexit gives us a chance to finish the Thatcher revolution’, *The Financial Times*, September 2, 2016, <https://www.ft.com/content/6cb84f70-6b7c-11e6-a0b1-d87a9fea034f>, retrieved 7 September 2018. In this article, Lawson goes on to criticise efforts by the UK to negotiate some form of access to the Single Market.

39. Michel Albert, *Capitalisme contre capitalisme* (Paris, Seuil, 1991).

40. Peter Hall and David Soskice, *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage* (Oxford, Oxford University Press, 2001).

41. Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism,* (Princeton, Princeton University Press, 1990).

42. The influence of Thatcher on the Coalition government’s fiscal policy is discussed in Nathalie Champroux and Nicholas Sowels, ‘The Monetary and Fiscal Policies of Early Thatcherism and the Legacy of the Medium Term Financial Strategy’, in Raphaëlle Espiet-Kilty (eds.), 'L'héritage du thatchérisme/The Thatcher Legacy', *Observatoire de la société britannique*, 17, 2015, pp. 135-161.

43. Patrick Wintour and Larry Elliot, 'Osborne moves to cut spending to 1930s levels in dramatic autumn statement', *The Guardian*, 4 December 2014, <https://www.theguardian.com/uk-news/2014/dec/03/autumn-statement-2014-george-osborne-spending-cuts>, [19 July 2019].
44. ONS, *Migration Statistics Quarterly Report: November 2018*, 29 November 2018.
45. Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy* (W. W. Norton & Company, 2012 [2011]), p. 57.
46. *Ibid.*, pp 184-207. For an online summary see, Dani Rodrik, 'The inescapable trilemma of the world economy', *Dani Rodrik's weblog*, June 27, 2007, at <http://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html>, [14 September 2018].

ABSTRACTS

This article begins by recalling the early ambiguities of Margaret Thatcher's positions on Europe, and then the role Britain played in the creation of the Single Market as of 1986. This has often been referred to as the "Thatcherisation of Europe", and the launching of the Single Market was the high-point of Britain's involvement in the EEC/EU. The article goes on to look at the rising tensions between Britain and its partners that followed soon, notably as Jacques Delors' integrationist aspirations became clearer. Mrs Thatcher's position at that point, stated clearly in her Bruges Speech of September 1988, summarises starkly Britain's consistent reluctance to engage in the process of institutional and political convergence that has always been part of the European project. Such tensions gave way to deepening Euroscepticism in the Conservative party, in the wake of Britain's thwart membership of the ERM/EMS (1990-1992). The article then examines how Britain shifted away from Europe's post-war social model under Margaret Thatcher, drawing on the "varieties of capitalism" literature, and argues that this created the economic foundations for Brexit. The article ends by examining the inherent contradiction between the Conservatives' drive to reduce the size of government since the global financial crisis and Great Recession, while at the same time pursuing globalisation: it draws here on the work of Dani Rodrik and his political "trilemma" of the world economy.

Cet article commence par rappeler les ambiguïtés de Margaret Thatcher concernant l'Europe, puis le rôle que le Royaume-Uni a joué dans la création du marché unique à partir de 1986 : un projet souvent appelé « la Thatcherisation de l'Europe ». C'était le point culminant de la participation britannique à la construction européenne. L'article examine ensuite les tensions croissantes qui ont suivi peu après entre le Royaume-Uni et ses partenaires, notamment lorsque les aspirations intégrationnistes de Jacques Delors sont devenues plus claires. La position de Mme Thatcher, énoncée clairement dans son discours de Bruges au mois de septembre 1988, résume clairement la réticence persistante du Royaume-Uni à s'engager dans le processus de convergence institutionnelle et politique qui a toujours fait partie du projet européen. Ces tensions ont laissé la place à un euroscepticisme grandissant au sein du Parti conservateur, à la suite de l'adhésion malheureuse de la livre au Système monétaire européen (1990-1992). En s'appuyant sur la littérature sur les «variétés du capitalisme», l'article se penche ensuite sur la façon dont le Royaume-Uni s'est écarté du modèle social européen d'après-guerre sous les gouvernements de Margaret Thatcher et il affirme que cette évolution a jeté certaines bases économiques du Brexit. L'article se termine par une analyse de la contradiction inhérente entre la volonté des Conservateurs de réduire la taille du secteur public depuis la crise financière mondiale et la Grande Récession, tout en poursuivant une politique favorable à la mondialisation. Cette analyse s'inspire des travaux de Dani Rodrik et de son « trilemme politique » en ce qui concerne l'économie mondiale.

INDEX

Keywords: Margaret Thatcher, United Kingdom, EEC, European Union, Brexit, single market, Exchange Rate Mechanism, globalisation.
Mots-clés: Margaret Thatcher, Royaume-Uni, CEE, Union européenne, Brexit, marché unique, Système monétaire européen, mondialisation.

AUTHOR

NICHOLAS SOWELS

Nicholas Sowels is a senior lecturer in English for economics at the University Paris 1 Panthéon-Sorbonne, and is a member of the CREW research center (EA 4399). His main current areas of research include public services, Brexit and financial services, and the on-going crisis of capitalism since the global financial crisis and Great Recession.